

Message Text

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 171303Z JAN 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8700

INFO AMCONSUL GUAYAQUIL

AMEMBASSY CARACAS

C O N F I D E N T I A L QUITO 0463

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: MINISTER OF NATURAL RESOURCES COLONEL RENE VARGAS CONFIRMS
POSSIBLE RETROACTIVE PRICE INCREASE FOR ECUADOREAN CRUDE

1. NEWLY-APPOINTED MINISTER OF NATURAL RESOURCES COLONEL RENE VARGAS CONFIRMED IN HIS FIRST PRESS CONFERENCE JANUARY 14 THAT ECUADOR IS CONSIDERING AN INCREASE IN PETROLEUM PRICES RETROACTIVE TO JANUARY 1. VARGAS SAID THE PRICE DECISION WOULD BE MADE AT THE HIGHEST LEVELS OF GOVERNMENT. THE NEW MINISTER ALSO REITERATED THAT ECUADOR WOULD REMAIN A MEMBER OF OPEC.

2. PERHAPS TO MOLLIFY THE WIDESPREAD APPREHENSION IN BOTH GOVERNMENT AND PRIVATE CIRCLES OF A POSSIBLE RADICAL TURN IN GOE PETROLEUM POLICIES AS A RESULT OF HIS APPOINTMENT, VARGAS STATED EMPHATICALLY THAT PETROLEUM EXPLORATION WOULD BE ENCOURAGED THROUGH NEGOTIATION OF SERVICE CONTRACTS, AND EXPLORATION OF ECUADOR'S "CONTINENTAL SHELF" WOULD BE INCREASED. VARGAS ALSO EMPHASIZED THAT HE WOULD INCREASE
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CEPE'S EXPLORATORY ACTIVITIES, "TO INCREASE THE RESERVES

FOR THE BENEFIT OF THE NATIONAL INTERESTS". VARGAS, HOWEVER, DECLINED TO COMMENT ON THE POSSIBILITY OF CEPE'S PURCHASE OF A 51 PERCENT INTEREST IN THE CEPE-TEXACO-GULF CONSORTIUM.

3. COMMENT: RUMORS REGARDING A PROPOSED INCREASE IN THE PRICE OF ECUADOREAN CRUDE HAVE BEEN CIRCULATING FOR SEVERAL WEEKS. IN NOVEMBER, ECUADOR RAISED ITS CRUDE PRICE BY 40 CENTS EFFECTIVE OCTOBER 1, 1975, TO A TAX-PAID COST OF \$11.00 PER BARREL, AN INCREASE OF 3.9 PERCENT. DURING THE PRICE NEGOTIATIONS BETWEEN THE MINISTRY AND TEXACO-GULF, VARGAS AND SOME INFLUENTIAL SUPPORTERS ENCOURAGED A PRICE INCREASE ABOVE 40 CENTS. IN FACT, VARGAS' INFLUENCE WAS INSTRUMENTAL IN OBTAINING THE ADDITIONAL 20 CENTS PER BARREL FOR CEPE. IN THE NOVEMBER PRICE DECREE, THE MINISTRY OF NATURAL RESOURCES INDICATED THE PRICE COULD BE READJUSTED IN DECEMBER.

4. THE ECUADOREANS WERE CONSIDERING A PRICE INCREASE FOR SEVERAL REASONS: THE GOE ANTICIPATED THAT NEW GUIDELINES ON DIFFERENTIALS WOULD BE DETERMINED IN THE ABORTED OPEC MEETING. ECUADOR WAS LIKEWISE INFLUENCED TO SOME EXTENT BY VENEZUELA'S HARD LINE ON PRICES. BUT MOST SIGNIFICANTLY, RECENT ECUADOREAN CRUDE SALES OF BOTH CEPE AND THE PRIVATE COMPANIES HAD BEEN ABOVE THE GOVERNMENT-DECREED PRICE OF \$11.45 A BARREL. CEPE'S RECENT WELL-PUBLICIZED SALES RANGED BETWEEN \$11.70 AND \$11.92 A BARREL, ALBEIT SPOT SALES WITH 180-DAY CREDIT TERMS. GULF'S MOST RECENT SELLING PRICE FOB BALAO TO U.S. INDEPENDENTS HAS BEEN \$11.65 PER BARREL. ACCORDING TO ONE OF GULF'S MAJOR CUSTOMERS, GULF INCREASED ITS PRICE FROM \$11.45 TO \$11.67 FOR THIRD-PARTY SALES LAST MONTH.

5. UNDER PRESENT MARKET CONDITIONS, THE EMBASSY FORESEES NO SERIOUS MARKETING DIFFICULTIES WITH A MODERATE INCREASE IN PRICE. HOWEVER, THE ONE-YEAR INVESTMENT PROGRAM RECENTLY PROPOSED BY TEXACO-GULF TO THE MINISTRY MAY AGAIN BE JEOPARDIZED. THE EMBASSY UNDERSTANDS THAT THE PROPOSED INVESTMENT IS SOMEWHERE AROUND \$28 MILLION, ALTHOUGH THIS FIGURE IS POSSIBLE OVERSTATED. THE PLAN WILL CALL FOR TWO DRILLING RIGS AND TWO WORKOVER RIGS IN OPERATION BY THE END OF THE YEAR. ANY INCREASE
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IN PRICE COULD SEVERELY CUT INTO THIS INVESTMENT PROGRAM. HOWEVER, UNLESS THE ECUADOREANS GREATLY INCREASE PRICES, TEXACO-GULF WILL PROBABLY HOLD PRODUCTION AT THE CURRENT LEVEL OF 195,000 BARRELS PER DAY.
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